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MEMORANDUM

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TO: Docket Control
Arizona Corporation Commission

FROM: Ernest G. Johnson
Director
Utilities Division

2006 SEP 29 P 4: 08

AZ CORP COMMISSION
DOCUMENT CONTROL

Date: September 29, 2006

RE: ARIZONA WATER COMPANY TO EXTEND ITS EXISTING CERTIFICATE
OF CONVENIENCE AND NECESSITY FOR ITS COOLIDGE SYSTEM,
PINAL COUNTY, ARIZONA. (DOCKET NO. W-01445A-07-0317)

Attached is the Supplemental Staff Report requested by the Administrative Law Judge in a Procedural Order filed September 5, 2006. The Procedural Order requested that Staff address the following:

1. Issues raised in the Motion to Intervene of Santa Cruz Water Company and Palo Verde Utilities Company.
2. Issues raised by Cardon Hiatt's letter in opposition to Arizona Water Company's application.
3. Issues raised by Woodruff Water Company's Motion to Intervene.
4. Issues raised in the Objections to the Staff Report filed by Santa Cruz Water Company and Palo Verde Utilities Company.
5. Issues raised in the Woodruff Water Company's Joinder in Global's Objection to the Staff Report.
6. The State Land Department's interest in being included in the extension area.

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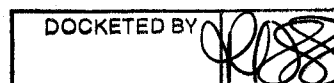
Originator: Linda A. Jaress

Attachment: Original and 13 Copies

Arizona Corporation Commission

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SEP 29 2006



Service List for: Arizona Water Company
Docket No. W-01445A-06-0317

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SUPPLEMENTAL STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-06-0317

APPLICATION FOR EXTENSION
OF CERTIFICATES OF
CONVENIENCE AND NECESSITY

SEPTEMBER 29, 2006

STAFF ACKNOWLEDGMENT

The Supplemental Staff Report for Arizona Water Company (Docket No. W-01445A-06-0317) was prepared by Linda A. Jaress.

A handwritten signature in black ink, reading "Linda A. Jaress". The signature is written in a cursive, flowing style.

Linda A. Jaress
Executive Consultant III

On May 4, 2006, Arizona Water Company ("Arizona Water") filed an application for an extension of its Certificate of Convenience and Necessity ("CC&N") for its Coolidge system. On June 22, 2006, Staff filed a Staff Report recommending approval. In August, Santa Cruz Water Company and Palo Verde Utilities Company ("Global") and Woodruff Water Company ("Woodruff") filed motions to intervene and objections to the Staff Report. Also, land owner Cardon Hiatt Companies ("Cardon Hiatt"), filed a letter in opposition to Arizona Water's application and the Arizona State Land Department filed a letter requesting that its property not be included in the CC&N of Arizona Water.

On September 5, 2006, a Procedural Order was filed by the Hearing Division ordering Staff to file a Supplemental Staff Report addressing the following:

1. Issues raised in the Motion to Intervene of Santa Cruz Water Company and Palo Verde Utilities Company.
 2. Issues raised by Cardon Hiatt's letter in opposition to Arizona Water Company's application.
 3. Issues raised by Woodruff Water Company's Motion to Intervene.
 4. Issues raised in the Objections to the Staff Report filed by Santa Cruz Water Company and Palo Verde Utilities Company.
 5. Issues raised in the Woodruff Water Company's Joinder in Global's Objection to the Staff Report.
 6. The State Land Department's interest in being included in the extension area.
- 1. Issues raised in the Motion to Intervene of Santa Cruz Water Company and Palo Verde Utilities Company.**

In its motion to intervene in this case, Global raised issues which have also been raised in a consolidated docket wherein the Companies are in a similar dispute with Arizona Water over service territory in the vicinity of Casa Grande (Docket Nos. W-01445A-06-0199, SW-03575A-05-0926 and W-03576A-05-0926 to be referred to as "the Casa Grande dockets"). However, in this case, Global does not have a competing application to serve the area in question nor has it shown requests for service.

In a Procedural Order filed July 10, 2006 in the Casa Grande dockets, the Commission denied the Robson Utilities request to intervene because Robson Utilities did not have standing to address the issues raised in its motion because it did not have any requests for service or an application for a CC&N for the proposed extension area and because "Robson Utilities has not demonstrated that it is directly and substantially affected by Arizona Water's application." Staff supports a similar denial of Global's request to intervene in this case. Allowing intervention by Global and Woodruff Water Company in this case could set a regrettable precedent which could bring the processing of this CC&N application and others to a crawl, while at the same time raising costs to potential (and in some cases current) ratepayers and homeowners. Furthermore, the intervention of Global and Woodruff is unlikely to add significant relevant facts to the proceeding. Staff sees no substantial difference between the circumstances in the Casa Grande

case and this case relating to requests for service and the lack of a competing application. Staff recommends that the motion of Santa Cruz and Palo Verde be denied.

However, Staff has no objections to granting intervention to directly-affected property owners or developers as long as Staff can verify that their interest in the proceeding is genuine through such documentation as deeds or contracts.

Other issues raised by Global in its motion are related to Arizona Water's "land grabs", the "banning" of other companies from the area, environmental concerns, property value concerns, concerns over the availability of water and concerns over the provision of wastewater service. These issues are identical to those raised by Global in the Casa Grande cases. Thus, if the motion to intervene is denied, those issues will not go unaddressed but will be vetted in the Casa Grande cases.

2. Issues raised by Cardon Hiatt's letter in opposition to Arizona Water Company's application.

The Staff Report in this matter was filed on June 22, 2006. On August 15, 2006, nearly two months later and less than one month before the hearing, Cardon Hiatt filed a letter requesting that the property owned by one or more of its affiliates be excluded from Arizona Water's proposed service territory. This request was based on its own exploration of "the possibility of providing water and sewer service to the Property itself at such time as the Property is developed." However, Cardon Hiatt has not requested intervention in this case. This could present discovery problems if Staff or other parties to the docket desire to elicit information from Cardon Hiatt through a data request. Furthermore, Arizona Water, which has the burden of proof in this case, should be given the opportunity to demonstrate the need to serve the Cardon Hiatt property before the Commission decides this issue.

3. Issues raised by Woodruff Water Company's Motion to Intervene.

On August 22, 2006, Woodruff Water Company filed a motion to intervene in this case because it purports to be in "discussions with Cardon Hiatt for water utility service to the Cardon Hiatt Property". This statement contradicts Cardon Hiatt's statement that it is contemplating serving itself. Regardless of the discrepancy, Woodruff has not provided a request for service and does not have an application pending for the Cardon Hiatt property or any other property in the requested area. For the same reasons that Staff opposes the intervention of Global, Staff recommends denial of Woodruff's intervention.

4. Issues raised in the Objections to the Staff Report filed by Santa Cruz Water Company and Palo Verde Utilities Company.

On August 25, 2006, Global filed objections to the Staff Report. As interpreted by Staff, Global is objecting to the ultimate size of Arizona Water's Coolidge service territory. According to Global, if Arizona Water only uses groundwater to serve the 303,000 customers Global

expects Arizona Water to serve in the Pinal County "area", it would result in "serious consequences both for the health of the aquifer and the sustainability of groundwater use." Therefore, Global wants Arizona Water to file a Certificate of Assured Water Supply ("CAWS") for each parcel in the extension. To Staff's knowledge, this issue is unique to this case and believes it to be a policy matter for the Commission to decide.

However, Staff offers these comments regarding a CAWS for each parcel of an extension: For large extensions of CC&Ns, Staff generally recommends that a company be ordered to provide a CAWS for the first phase of the development. This is because it is not unusual for developments to proceed at a slower pace than originally expected. Asking for a CAW for each parcel could result in an open decision from the Commission with 10 or 15 years of compliance to be tracked. Requests for extensions of time would be common rather than the exception.

An alternative is a Designation of Assured Water Supply ("DAWS") which is procured by the utility rather than the developer. The advantage of a DAWS is that it settles the issue of water availability for a large area. The disadvantage is it makes development easier and more economic for the developer, while making the cost of acquiring a DAWS a cost of service recoverable from ratepayers.

Therefore, Staff believes following the current policy regarding Certificates of Assured Water Supplies to be appropriate. With continuation of the status quo, the cost of the process of applying for and obtaining certification from the Arizona Department of Water Resources that there is adequate water to serve a new development is left to the developer. Thus, whether or not Global is denied intervention in this proceeding, Staff will continue recommending the filing of the CAWS for the first phase of a large development.

5. Issues raised in the Woodruff Water Company's Joinder in Global's Objection to the Staff Report.

On August 25, 2006, Woodruff joined in the objection of Global. These filings were made contemporaneously. In short, this document objects to the inclusion of the Cardon Hiatt property in Arizona Water's CC&N extension which Staff discussed above.

6. The State Land Department's interest in being included in the extension area.

On July 18, 2006, in response to an informal Staff request, Arizona Water filed a letter from Mr. Mark Winkleman, State Land Commissioner at the Arizona State Land Department ("Land Department"). Portions of the proposed extension area are owned by the State Land Department. The letter was non-committal in regards to a need for service or the Land Departments desire to be included in Arizona Water's service territory. In fact, the Land Department expressed its wish "to remain neutral as to who the water provider should be for this land." However, it felt it was in its best interest to be included in a certificated area for water delivery. Because the Land Department has clearly received notice, is fully aware of its

inclusion in the proposed extension, did not specifically ask to be excluded and has no objections to being included, Staff has no objection to its inclusion in the proposed area.